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CRAWFORD-ONTARIO SAND & GRAVEL LIMITED

Annual Report

for the Fiscal Year ended April 30, 1966

DIRECTORS
Monte Cecil Beder
Harvey Melville Kerbel
Arthur Lerman
Harry Lerman
Arthur Lipton
Albert H. Rutherford
Nathan Louis Sandler

MANAGEMENT
Harry Lerman, *President*
Arthur Lerman, *Vice-President*
Arthur Lipton, *Secretary*
Harvey Melville Kerbel, *Treasurer*

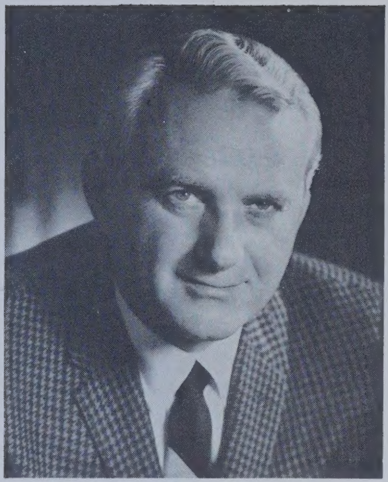
REGISTRAR AND TRANSFER AGENT
Eastern & Chartered Trust Company, Toronto and Montreal

AUDITORS
Brockman, Risman, Marr & Company, Toronto
Chartered Accountants

BANK
Canadian Imperial Bank of Commerce, Toronto

HEAD OFFICE
Maple, Ontario

PRESIDENT'S REPORT



TO THE SHAREHOLDERS:

I am pleased to report on another successful and profitable year of operations for your Company, in the fiscal period ended April 30, 1966.

As this represents our second year as a public company, your management can now furnish direct comparisons with the previous year's figures as an added guide to Shareholders in evaluating the Company's progress.

FINANCIAL HIGHLIGHTS

Among the highlights of the past year's operations was a 14 per cent gain in consolidated sales to a record $2,134,952 from $1,867,234 the year before. Net profit rose 20 per cent to $157,730 from $131,286. This is equivalent to 36.2¢ per common share on 436,000 shares outstanding, compared to 30.1¢ in 1965.

A glance at the profit and loss statement will reveal that the cost of shipping and delivery represents the major expense in the operation of your Company. This emphasizes the vital necessity of having, or adding, sources of aggregate supply close to delivery points. Your management's success in maintaining this balance is indicated by the fact that our shipping and delivery expenses rose barely more than 3 per cent (to $940,810 from $910,480) to service a sales gain of 14 per cent. Expressed as a percentage of sales, shipping and delivery costs were reduced to 44 per cent from 49 per cent the year before.

Working capital at the end of fiscal 1966 was $130,523 compared to $69,384 the previous year, and cash flow from operations reached $326,767 as against $285,490 in fiscal 1965.

DIVIDEND POLICY

Your Board of Directors holds a positive attitude towards distributing profits to Shareholders in the form of dividends, consistent with retaining sufficient earnings to support planned operations and growth.

During our first year of operation, this policy was reflected in declaration of a year-end dividend of 10¢ per share paid on September 1, 1965.

In view of the increased earnings during the fiscal year just concluded, your Board of Directors have declared a semi-annual dividend of $7^1/_2$ cents, payable on September 15, 1966 to Shareholders of record as at September 1, 1966.

PROGRESS

During the year your Company made a capital investment of $190,000 in new equipment, including heavy duty gravel trucks and two front-end loaders of four cubic yard and three and a half cubic yard capacity.

Our company-owned fleet of trucks now numbers 35 which, combined with some 70 trucks operated on a sub-contracting basis, enables us to move more than 12,000 tons a day during the busiest part of the construction season. Our full line of excavating equipment includes one of Canada's largest power shovels, capable of loading a 10-ton truck in little more than half a minute.

All rolling stock is repaired and serviced by our own fully-equipped maintenance division. As predicted in last year's annual report, construction of our own crushing and screening plant has contributed to our expanded sales volume while improving the profit ratio on manufactured materials.

The 20-acre Woodbridge pit of Monarch Sand & Gravel, which we took over on a royalty basis during the year, was of substantial assistance to our operations. A recent acquisition was a pit at Pine Grove, only five miles from our present headquarters. This pit, acquired on a royalty basis, supplies stone which we screen in our own plant to produce Granular A mulch, an important ingredient in the construction of highway roadbeds.

The proximity of the Pine Grove pit, which has sufficient stone supply for at least five years of normal operation, enables us to save 50 per cent of the cost of alternatively purchasing Granular A mulch. We have also acquired, on a royalty basis, the Blake Sand and Gravel pit at Highland Creek, which will further strengthen our supply of material.

OUTLOOK

With heavy construction booming throughout the greater metropolitan Toronto area, and your Company's brand of product and service winning increasingly wide acceptance among general contractors, public utilities and governments, the outlook for the current year is bright indeed.

Among the projects we are currently servicing are the massive widening of the Macdonald-Cartier Highway (401); a comprehensive township roads program, including Keele Street in Vaughan Township and Main Street in Weston; a major reservoir at Keele Street and Steeles Avenue; and construction of the Spadina Expressway.

Our backlog of orders now totals some 700,000 tons of aggregate material, representing approximately $1 million in income. Because 85 per cent of our business is done under short and long term contract with provincial and municipal governments, we are essentially free of tight money considerations which affect other industries. As noted earlier in this report, management is consistently attuned to greater efficiency and productivity through acquisition of capital equipment and ideally-located pits. This not only enables us to service an expanding volume of sales, but also augurs well for maintenance of sound profit ratios on this new business.

I would like to take this opportunity to commend our employees for their continued high standard of service, and also express the Company's sincere thanks to our customers without whose loyalty our present success would not be possible.

On behalf of the Board

Maple, Ontario
August 31, 1966

Harry Lerman

HARRY LERMAN
President

CRAWFORD-ONTARIO **sand & gravel limited**

and subsidiary company

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

for the year ended April 30, 1966 *(with comparative figures for the year ended April 30, 1965)*

	1966	1965
SALES	$2,134,952	$1,867,234
MANUFACTURING COSTS	534,414	411,329
GROSS MARGIN	$1,600,538	$1,455,905
EXPENSES		
Shipping and Delivery	$ 940,810	$ 910,480
Selling	70,145	56,433
General and Administrative	91,667	74,857
	$1,102,622	$1,041,770
NET PROFIT FROM OPERATIONS BEFORE UNDER-NOTED EXPENSES	$ 497,916	$ 414,135
Depreciation and Depletion	$ 156,304	$ 127,795
Interest on Long Term Debt	34,153	33,973
Taxes on Income — (Note 4)	149,729	121,081
	$ 340,186	$ 282,849
NET PROFIT — (Note 6)	$ 157,730	$ 131,286
Net Profit per Share	36.2	30.1
Shares Outstanding	436,000	436,000

(Amounts paid by the Company during 1966 in respect of remuneration of executive officers and legal fees aggregated $67,112.)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended April 30, 1966 *(with comparative figures for the year ended April 30, 1965)*

	1966	1965
Balance — at beginning of fiscal year	$209,727	$122,429
Add — Retained Earnings of Subsidiary Company — May 1, 1965	96	—
— Net Profit for year	157,730	131,286
— Gain on Discharge of Mortgage — (Note 3)	16,975	—
	$384,528	$253,715
Less — Expenses of Public Issue	$ —	$ 8,664
— Income Taxes Applicable to Prior Years	(4,267)	35,324
— Dividends Paid	43,600	—
	$ 39,333	$ 43,988
Balance — at end of fiscal year	$345,195	$209,727

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(with comparative fi

ASSETS

	1966	1965
CURRENT		
Cash on Hand	$ 70,406	$ 8,735
Bank Deposit Receipt	100,000	25,000
Accounts Receivable — Less provision for doubtful accounts	248,070	184,284
Inventory of Processed Sand and Gravel — (at lower of cost or market)	51,777	42,398
Inventory of Operating Parts and Supplies — (at lower of cost or market)	43,097	47,118
Prepaid Expenses	33,485	43,929
	$ 546,835	$ 351,464
FIXED — (Note 1)		
Land available for Sand and Gravel Operations	$ 723,532	$ 723,532
Buildings, Equipment, Rolling Stock and Vehicles	1,253,186	1,083,457
	$1,976,718	$1,806,989
Less — Accumulated Depreciation and Depletion	462,479	327,160
	$1,514,239	$1,479,829
	$2,061,074	$1,831,293

On Behalf of the Board:

Harry Lerman, Director

Arthur Lipton, Director

The accompanying notes are an integral part of the financial statements

AUDITO

To the Shareholders of
Crawford-Ontario Sand & Gravel Limited

We have examined the consolidated balance sheet of Crawford-Ontario Sand & Gravel Limited and subsidiary company as at April 30, 1966, and the consolidated statements of profit and loss and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of profit and loss and retained earnings present fairly the combined financial position of Crawford-Ontario Sand & Gravel Limited and its subsidiary company as at April 30, 1966 and the results of their combined operations for the

sand & gravel limited

company

ALANCE SHEET

30, 1966

as at April 30, 1965)

LIABILITIES

	1966	1965
CURRENT		
Accounts Payable and Accrued Liabilities	$ 206,465	$ 90,032
Income Taxes Payable	90,185	39,988
Loans Payable to Directors — Current Portion — (Note 2)	17,258	28,867
Mortgages Payable — Current Portion — (Note 3)	20,748	17,683
Due on Equipment — Current Portion	81,656	105,510
	$ 416,312	$ 282,080
LONG TERM DEBT — After deducting amounts included in current liabilities		
Mortgages Payable — (Note 3)	$ 240,427	$ 249,250
Due on Equipment	18,133	35,979
Loans Payable to Directors — (Note 2)	—	25,983
	$ 258,560	$ 311,212
DEFERRED INCOME TAXES — (Note 4)	$ 39,142	$ 26,409
TOTAL LIABILITIES	$ 714,014	$ 619,701
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized — 1,000,000 Shares Without Par Value Issued — 436,000 Shares	$ 226,200	$ 226,200
RETAINED EARNINGS — See Statement Attached	345,195	209,727
APPRAISAL SURPLUS — (Note 1)	770,665	770,665
CONTRIBUTED SURPLUS — (Note 5)	5,000	5,000
	$1,347,060	$1,211,592
	$2,061,074	$1,831,293

REPORT

year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying consolidated statement of source and application of funds and working capital which, in our opinion, when considered in relation to the aforementioned statements, presents fairly the changes in the consolidated financial position of Crawford-Ontario Sand & Gravel Limited and its subsidiary company for the year ended April 30, 1966.

Respectfully submitted,

BROCKMAN, RISMAN, MARR & COMPANY
Chartered Accountants

Toronto, Canada,
July 6, 1966

CRAWFORD-ONTARIO **sand & gravel limited**

and subsidiary company

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS AND WORKING CAPITAL

for the year ended April 30, 1966 *(with comparative figures for the year ended April 30, 1965)*

	1966	1965
SOURCE OF FUNDS		
Profit for year	$157,730	$131,286
Non-Cash Expenses deducted in determining		
Profit for the Year		
— Depreciation and Depletion	156,304	127,795
— Deferred Income Taxes — (Note 4)	12,733	26,409
Cash Flow from Operations	$326,767	$285,490
Loans Payable to Directors Deferred — (Note 2)	—	25,983
Gain on Discharge of Mortgage — (Note 3)	16,975	—
Retained Earnings of Subsidiary Company — May 1, 1965	96	—
	$343,838	$311,473
APPLICATION OF FUNDS		
Net Additions to Fixed Assets	$190,714	$231,230
Reduction in Long-term Portion of Mortgages		
Payable and Balance due on Equipment	26,669	5,862
Expenses of Public Issue	—	8,664
Income Taxes Applicable to Prior Years	(4,267)	35,324
Dividends Paid	43,600	—
Reduction in Long-term Portion of Directors' Loans — (Note 2)	25,983	—
	$282,699	$281,080
INCREASE IN WORKING CAPITAL	$ 61,139	$ 30,393
WORKING CAPITAL		
Balance — at beginning of fiscal year	$ 69,384	$ 38,991
Increase during year	61,139	30,393
Balance — at end of fiscal year	$130,523	$ 69,384

NOTES TO FINANCIAL STATEMENTS — APRIL 30, 1966

NOTE 1 — FIXED ASSETS

An independent appraisal dated April 6, 1964 was made of the reserves of granular material in the company's lands by Warnock, Hersey Soil Investigations Ltd. An independent appraisal of the value of the company's lands made at February 29, 1964 and dated April 15, 1964 was made by Herb Sills Limited, Realtors. An independent appraisal of the value of the company's buildings, equipment, rolling stock, and vehicles made as at February 29, 1964 and dated March 12, 1964, was made by Dominion Appraisal Company Limited on the basis of replacement value new, less observed depreciation. Some of the fixed assets included in the appraisal increment as at February 29, 1964 have been sold or traded. The appraisal increment has not been adjusted to reflect these fixed asset changes. The latter two appraisals have been recorded in the books of the company as follows:

	Land	Buildings, Equipment, etc.	Total
Cost at beginning of year	$ 316,703	$ 889,350	$1,206,053
Appraisal Increment as at February 29, 1964	406,829	363,836	770,665
	$ 723,532	$1,253,186	$1,976,718
Less — Accumulated Depreciation and Depletion	11,749	450,730	462,479
	$ 711,783	$ 802,456	$1,514,239

NOTE 2 — LOANS PAYABLE TO DIRECTORS

Pursuant to the underwriting agreement dated May 12, 1964, the company will repay loans presently owing to directors at the maximum rate of $28,867 per annum. In addition thereto, should net earnings after taxes of the company exceed $125,000, one-half of such earnings in excess of $125,000 may be allocated by the company towards repayment of such loans. These loans bear interest at 6% per annum.

NOTE 3 — MORTGAGES PAYABLE

	1966	1965
First Bond Mortgage Payable — 7% due February 9, 1973	$ —	$ 263,075
First Debenture Mortgage Payable — 8% due May 20, 1970	257,786	—
Mortgage Payable — 7% due October 28, 1968	3,389	3,858
	$ 261,175	$ 266,933
Less — Current Portion	20,748	17,683
	$ 240,427	$ 249,250

On May 5, 1965 the first mortgage bonds payable in the amount of $263,075 were discharged for $246,100. The gain of $16,975 was transferred directly to retained earnings.

NOTE 4 — INCOME TAXES

The provision for taxes on income of $149,729 is based on earnings for the year after providing for normal capital cost allowance. Tax incentive Legislation permits accelerated capital cost allowance to be claimed by the company and has resulted in deferring income taxes. The company has provided for deferred income taxes on the excess of available accelerated capital cost allowances over established normal capital cost allowances. The amount so provided for 1966 in the amount of $12,733 has been shown on the attached balance sheet under the caption of Deferred Income Taxes. This amount is applicable to those future periods in which the capital cost allowances claimed for tax purposes will be less than the depreciation recorded in the accounts. The amount by which the accelerated capital cost allowance exceeds normal capital cost allowance for the year is $24,486.

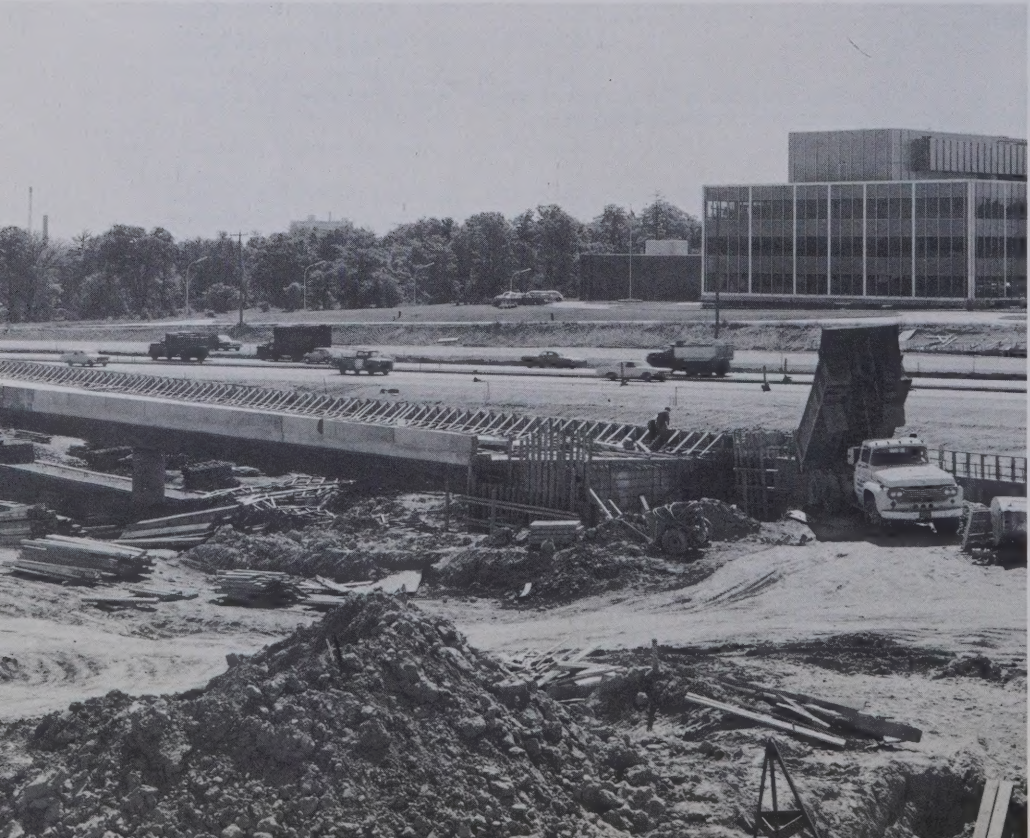
NOTE 5 — CONTRIBUTED SURPLUS

This amount arises from the sale of 100,000 share purchase warrants. These warrants entitle the holders to purchase 100,000 shares in the capital of the company at a price of $2.50 a share up to June 15, 1966; at $2.75 a share from June 16, 1966 to June 15, 1968, and at $3.00 a share from June 16, 1968 to June 15, 1969.

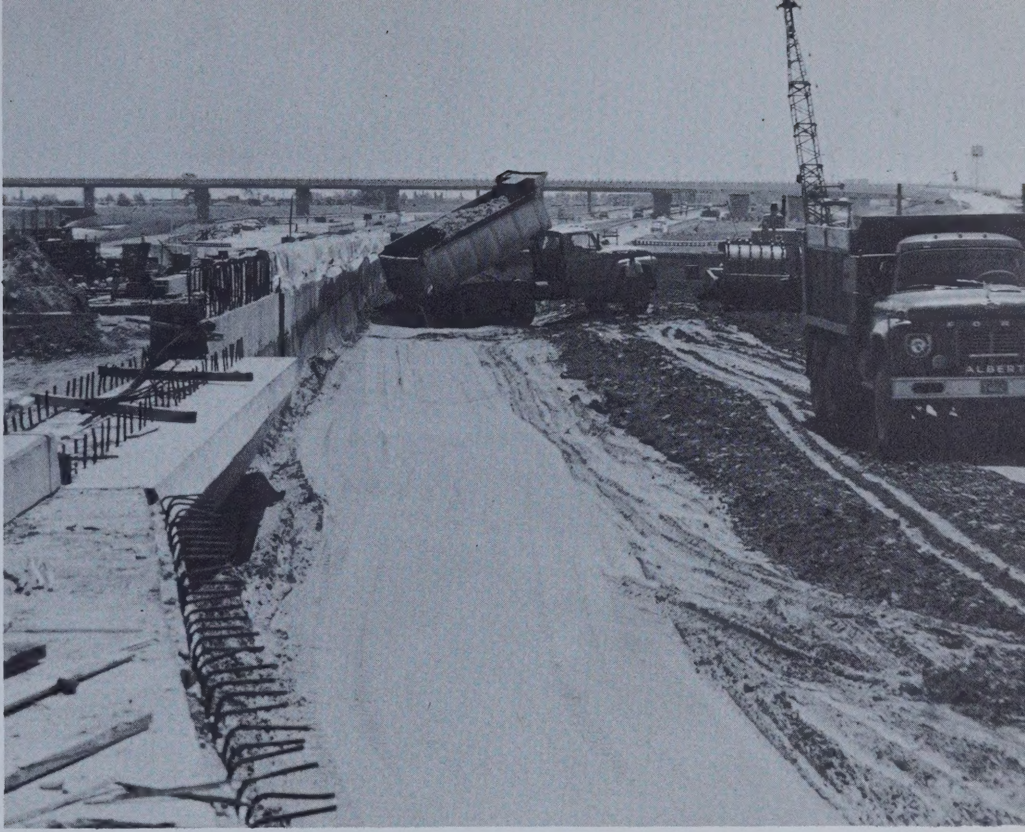
NOTE 6 — DIVIDENDS

According to the terms of the new first debenture mentioned in Note 3, the company cannot pay in any fiscal year any dividends which are in excess of fifty per cent (50%) of the previous fiscal year's profits or if any such dividends have the effect of reducing the net worth of the company as represented by capital stock and earned surplus below the amount of $400,000.

Crawford-Ontario's giant new three-yard power shovel, one of the largest in Canada, saves costly delivery time by loading a fifteen-ton truck in less than a minute at the Company's main pit at Maple, Ontario.



A major project for Crawford-Ontario is the massive, $75 million widening of the Macdonald-Cartier Freeway, (Highway 401). The supply of hundreds of thousands of tons of sand and gravel, now in its third year, is part of the Company's million dollar backlog and will continue throughout next year.



Another major project relying on Crawford-Ontario products is Toronto's new Spadina Avenue Expressway. For more than two years, the Company has supplied fill for miles of road-beds and bridges, and will continue to work on this vital transportation link for more than a year to come.

Crawford-Ontario's new crushing and screening plant at the main 144-acre pit at Maple, Ontario, produces up to 2,000 tons of aggregate a day. The screening plant was erected by the Company's maintenance division at a saving of more than $15,000.

CRAWFORD-ONTARIO SAND & GRAVEL LIMITED

Maple, Ontario